

**CONTRACT #1**  
**RFS # 317.04-003**

**Department of Finance &  
Administration/Insurance  
Administration**

**VENDOR:**  
**Medstat Group**



RECEIVED

AUG 31 2005

FISCAL REVIEW

STATE OF TENNESSEE  
DEPARTMENT OF FINANCE AND ADMINISTRATION  
INSURANCE ADMINISTRATION  
312 Eighth Avenue North  
Suite 1300 William R. Snodgrass Tennessee Tower  
Nashville, Tennessee 37243  
Phone (615) 741-3590 or (800) 253-9981  
FAX (615) 741-8196

Dave Goetz  
COMMISSIONER

Richard Chapman  
DIRECTOR

MEMORANDUM

TO: Members of the Contract Sub-Committee of the Fiscal Review Committee

FROM: Richard Chapman *[Signature]*

SUBJECT: Medstat Contract Extension

At your meeting of August 24, 2005, the Division of Insurance Administration of the Department of Finance and Administration reviewed with you a request to extend a contract with Medstat for the purpose of providing a claims analysis system for the state sponsored health plans for an additional 36 month period. Based upon those discussions, the Committee postponed its consideration of the proposed amendment to allow for a further definition of the estimated consulting dollar expenses, the inclusion of an annual performance review in the contract extension and a reduction in the maximum liability to more accurately reflect the anticipated expense. The contract summary sheet and the amendment to the contract have been modified to provide for an increase in the maximum contract amount in total of \$1,050,000 allocated for the three fiscal years beginning with FY2006-07.

Additionally, the Division of Insurance Administration has prepared an estimate of the total consulting dollars that may be expended under this contract; the anticipated total is \$90,000 and is allocated for the following purposes:

Benefit Modeling	\$15,000
Program Evaluation	\$15,000
Claims Analysis	\$10,000
GASB Project	\$50,000

For the purpose of allocation of the expenditure authorization by fiscal year, the allocation is as follows:

FY2005-06	\$40,000
FY2006-07	\$40,000
FY2007-08	\$10,000

Additionally, the contract amendment calls for Medstat to meet with the Division annually to review its performance relative to the program and contract obligations. Presently, the Division of Insurance Administration and the contractor are conducting annual planning sessions, are holding quarterly meetings (either in person or by conference call) to review issue logs and complete specific management activities and are conducting monthly status reports to the Division's contact relative to the issue log maintained by the contractor.

We have enclosed a copy of the revised contract amendment as well as the contract summary sheet which has been revised to reflect the issues reviewed at the meeting of August 24, 2005.

This matter was reviewed by the State, Local Education and Local Government Insurance Committees at their meeting of August 30, 2005. They approved the terms of the contract extension in the form provided for in the amendment.

Should you have any questions regarding this matter, I would be glad to review them with you at your meeting of September 14, 2005.

RLC/s

# CONTRACT SUMMARY SHEET

8-8-05

<b>RFS #</b> 317.04-003	<b>Contract #</b> FA5114095
<b>State Agency</b> F&A	<b>State Agency Division</b> Insurance Administration
<b>Contractor Name</b> The MEDSTAT Group, Inc.	<b>Contractor ID # (FEIN or SSN)</b> <input type="checkbox"/> C- or <input checked="" type="checkbox"/> V- 06-1467923

**Service Description**  
Storage of healthcare data, for research and insurance plan management purposes. This amendment extends the contract through December 31, 2008; increases the maximum liability. FAContracts\VENORS\MEDSTAT\SUMMARYsummary (1-1-2006).doc

<b>Contract Begin Date</b> 1-1-95	<b>Contract End Date</b> 12-31-08	<b>SUBRECIPIENT or VENDOR?</b>	<b>CFDA #</b>
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**Mark, if Statement is TRUE**  
☒ Contractor is on STARS as required      ☒ Contractor's Form W-9 is on file in Accounts as required

<b>Allotment Code</b> 317.04	<b>Cost Center</b> 993	<b>Object Code</b> 083	<b>Fund</b> 11	<b>Funding Grant Code</b>	<b>Funding Subgrant Code</b>
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FY	State	Federal	Interdepartmental	Other	TOTAL Contract Amount
1995-2006			3,400,000		3,400,000
2007			360,000		360,000
2008			360,000		360,000
2009			330,000		330,000
<b>TOTAL:</b>			4,450,000		4,450,000

— COMPLETE FOR AMENDMENTS ONLY —			State Agency Fiscal Contact & Telephone #
FY	Base Contract & Prior Amendments	THIS Amendment ONLY	Maureen Abbey 20 <sup>th</sup> Floor, Snodgrass TN Tower Nashville, TN 37243 741-0300
1995-2006	3,400,000		<b>State Agency Budget Officer Approval</b>  Funding Certification (certification, required by T.C.A., § 9-4-5113, that there is a balance in the appropriation from which the obligated expenditure is required to be paid that is not otherwise encumbered to pay obligations previously incurred)
2007		360,000	
2008		360,000	
2009		330,000	
<b>TOTAL:</b>	3,400,000	1,050,000	
<b>End Date:</b>	12-31-05	12-31-08	

**Contractor Ownership**

<input type="checkbox"/> African American	<input type="checkbox"/> Disabled	<input type="checkbox"/> Hispanic	<input type="checkbox"/> Small Business	<input checked="" type="checkbox"/> NOT minority/disadvantaged
<input type="checkbox"/> Asian	<input type="checkbox"/> Female	<input type="checkbox"/> Native American	<input type="checkbox"/> OTHER minority/disadvantaged—	

**Contractor Selection Method**

<input checked="" type="checkbox"/> Original: RFP	<input type="checkbox"/> Competitive Negotiation	<input type="checkbox"/> Alternative Competitive Method
<input checked="" type="checkbox"/> This amdt: Non-Competitive Negotiation	<input type="checkbox"/> Government	<input type="checkbox"/> Other

**Procurement Process Summary**  
Please see attached documentation, detailing justification.

**AMENDMENT NUMBER SIX (6) TO CONTRACT FA5114095  
BETWEEN THE STATE OF TENNESSEE, STATE INSURANCE COMMITTEE,  
LOCAL EDUCATION INSURANCE COMMITTEE, LOCAL GOVERNMENT INSURANCE COMMITTEE  
AND  
THE MEDSTAT GROUP, INC.**

This contract, by and between the State of Tennessee, the State Insurance Committee, Local Education Insurance Committee, and Local Government Insurance Committee, hereinafter referred to as the State, and The MedStat Group, Inc., hereinafter referred to as the Contractor, is hereby amended as follows:

1. Insert the following to Section B., Scope of Services, as the fourth paragraph, and prior to the paragraph beginning "More specifically, ....":

**For the contract year beginning January 1, 2006, the Contractor shall:**

- **initiate the activities necessary to add MEDSTAT's Episode Grouper to its Advantage Suite database system;**
- **enhance the database to include "Copay" and "Coinsurance" fields, to be populated separately, both retroactively and prospectively; and**
- **implementation of up to one (1) new data source (carrier) per year.**

2. Delete Section B.1.b. in its entirety and insert the following in its place:

**B.1.b Data format conversions, for the periods indicated below, and with the designated components:**

<b>Contract Period</b>	<b>Vendor(s)</b>	<b>Required Components</b>
January 1, 1995 through December 31, 1996	Blue Cross Blue Shield of Tennessee	data format conversion for the Plan Administrator in one format
January 1, 1997 through December 31, 1999	Blue Cross Blue Shield of Tennessee	medical and prescription drug claims in a single, consistent format specified by the Contractor
January 1, 1997 through December 31, 1999	HealthSource	medical and prescription drug claims and encounter records in a single, consistent format specified by the Contractor
Periods beginning on or after January 1, 2000	Blue Cross Blue Shield of Tennessee	medical and prescription drug claims in a single, consistent format specified by the Contractor
Periods beginning on or after January 1, 2000	John Deere Health Care, Inc.	medical and prescription drug claims and encounter records in a single, consistent format specified by the Contractor
Periods beginning on or after January 1, 2000	United Behavioral Health, Inc.	medical and prescription drug claims in a single, consistent format specified by the Contractor
Periods beginning on or after January 1, 2000 through December 31, 2000	United Healthcare of Tennessee	medical and prescription drug claims in a single, consistent format specified by the Contractor
Periods beginning on or after January 1, 2001	Aetna/Prudential	medical and prescription drug claims in a single, consistent format specified by the Contractor
January 1, 2003 through December 31, 2005	Blue Cross Blue Shield of Tennessee, Aetna, John Deere, Magellan Behavioral Health	Eligibility data feed: State of Tennessee; Medical Claims Data feeds: BCBST, Aetna, John Deere, UBH; Pharmaceutical Data feeds: BCBST, Aetna, John Deere
Periods beginning on or after January 1, 2006	Blue Cross Blue Shield of Tennessee, CIGNA, John Deere, Magellan Behavioral Health	Eligibility data feed: State of Tennessee; Medical Claims Data feeds from BCBST, Aetna, John Deere Health, CIGNA, and Magellan; Pharmaceutical Data feeds from BCBST, Aetna, John Deere Health, and CIGNA.

3. Insert the following as Section B.6:

**B.6 The Contractor shall provide representatives to meet with the State annually to review its (the Contractor's) performance relative to program and contract obligations.**

4. Delete Section C.1 in its entirety and insert the following in its place:

**C.1** In no event shall the maximum liability of the State under this Contract exceed Four Million, Four Hundred, Fifty Thousand Dollars (\$4,450,000). The rates in Section C.4.a. and Section D. (Optional Services and Charges), and its subsections, shall constitute the entire compensation due the Contractor for the services delivered and all of the Contractor's obligations hereunder regardless of the difficulty, materials or equipment required. The rates include, but are not limited to, all applicable taxes, fees, overheads, and all other direct and indirect costs incurred or to be incurred by the Contractor.

5. Delete Section C.4.a. in its entirety and insert the following in its place:

**C.4.a.** Monthly payments shall be made to the Contractor for the basic services described under Section B., SCOPE OF SERVICES. The fixed fees for each contract year (to be paid at the rate of one twelfth of the total) are as follows:

Calendar Year	Total fixed fee for basic services
1995	\$190,000
1996	\$199,500
1997	\$226,931
1998	\$287,240
1999	\$262,080
2000	\$262,080
2001	\$273,442
2002	\$281,645
2003	\$290,094 plus Advantage Suite: \$50,000 (total fixed fee 2003 = \$340,094)
2004	\$298,796
2005	\$307,760
2006	\$312,376
2007	\$317,062
2008	\$321,818

Beginning with contract year 2003, if any of the eight required data feeds (see Section B.1.b) are eliminated, there will be a corresponding decrease of Five Thousand Dollars (\$5000) per eliminated data feed, for each of the remaining years of the contract. If any such elimination should occur at any point other than on a calendar year basis, this \$5000 fee decrease will be prorated, as mutually agreed by both parties.

6. Delete Section C.4.b. in its entirety and insert the following in its place:

**C.4.b.** For each contract year (Column A below), fixed fees cover up to the number of employees (Column B) whose medical claims are administered by the Plan Administrator(s). If the average number of contracts exceeds the total in Column C, the State shall pay to the Contractor the amount in Column D, for all contracts in excess of the number in Column C, at the rate indicated.

A. Contract Year	B. Fees cover up to :	C. If contracts exceed...	D. ...the State will pay to the Contractor...
1/1/1995 – 12/31/1997	110,000	110,000	\$0.43 per contract per quarter
1/1/1998 – 12/31/1999	112,000	112,000	\$2.19 per contract per year
1/1/2000 – 12/31/2005	150,000	150,000	\$2.43 per contract per year
1/1/2006 – 12/31/2008	150,000	150,000	\$2.43 per contract per year

7. Delete Section D.2 in its entirety and insert the following in its place:

**D.2 Standard Rates of reimbursement shall be as follows:**

	Hourly Rate for Contract Term beginning...	
	January 1, 1995	January 1, 2000
MedStat Representative position		
Vice President	not applicable	\$450.00/hr
Account Executive/Client Director	not applicable	\$412.50/hr
Director/Client Executive	\$230.00/hr	not applicable
Client Manager	\$225.00/hr	\$300.00/hr
Senior Consultant	\$212.00/hr	not applicable
Health Care Consultant/Data	\$187.00/hr	not applicable
Health Care Analyst/Data Analyst	\$175.00/hr	not applicable
Project Manager or Senior Consultant	not applicable	\$262.50/hr
Tech Support or Senior Programmer	not applicable	\$212.50/hr
Consultant or Data Manager	not applicable	\$175.00/hr
Analyst or Programmer	\$150.00/hr	\$137.50/hr
Administrative	not applicable	\$62.50/hr

8. Insert the following as Section D.3:

**D.3 For the term extension beginning January 1, 2006 and ending December 31, 2008, the total State cost for services requested under Section D.2 shall not exceed Ninety Thousand Dollars (\$90,000).**

9. Delete Section E. in its entirety and insert the following in its place:

**E. Contract Term: This Contract shall be effective for a period commencing on January 1, 1995 and ending on December 31, 2008. The State shall have no obligation for services rendered by the Contractor which are not performed within the specified period.**

The other terms and conditions of this contract not amended hereby shall remain in full force and effect.

IN WITNESS WHEREOF:  
THE MEDSTAT GROUP, INC.:

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Carol Deiphuis, Executive Vice President

Date

STATE OF TENNESSEE  
STATE INSURANCE COMMITTEE  
LOCAL EDUCATION INSURANCE COMMITTEE  
LOCAL GOVERNMENT INSURANCE COMMITTEE:

---

M. D. Goetz, Jr., Chairman

Date

APPROVED:  
DEPARTMENT OF FINANCE AND ADMINISTRATION:

---

M. D. Goetz, Jr., Commissioner

Date

COMPTROLLER OF THE TREASURY:

---

John G. Morgan, Comptroller of the Treasury

Date



# REQUEST: NON-COMPETITIVE AMENDMENT

APPROVED

Commissioner of Finance &amp; Administration

Date:

EACH REQUEST ITEM BELOW MUST BE DETAILED OR ADDRESSED AS REQUIRED.

1) RFS #	317.04-003	
2) State Agency Name :	F&A – Insurance Administration	
EXISTING CONTRACT INFORMATION		
3) Service Caption :	Medical Claims decision support system; data storage and analysis	
4) Contractor :	The MEDSTAT Group, Inc.	
5) Contract #	FA51-14095	
6) Contract Start Date :	January 1, 1995	
7) <u>Current</u> Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	December 31, 2008	
8) <u>Current</u> Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$3,400,000	
PROPOSED AMENDMENT INFORMATION		
9) <u>Proposed</u> Amendment #	6	
10) <u>Proposed</u> Amendment Effective Date : (attached explanation required if date is < 60 days after F&A receipt)	January 1, 2006	
11) <u>Proposed</u> Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	December 31, 2008	
12) <u>Proposed</u> Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$4,450,000	
13) Approval Criteria : (select one)	<input checked="" type="checkbox"/> use of Non-Competitive Negotiation is in the best interest of the state <input type="checkbox"/> only one uniquely qualified service provider able to provide the service	
14) Description of the Proposed Amendment Effects & Any Additional Service :		
See attached correspondence from Richard Chapman to Commissioner Goetz, dated August 16, 2005.		
15) Explanation of Need for the Proposed Amendment :		

See attached correspondence.

16) Name & Address of Contractor's Current Principal Owner(s) :  
(not required if proposed contractor is a state education institution)

The MEDSTAT Group, Inc., 777 East Eisenhower Parkway, Ann Arbor, MI 48108

17) Documentation of Office for Information Resources Endorsement :  
(required only if the subject service involves information technology)

select one:



Documentation Not Applicable to this Request



Documentation Attached to this Request

18) Documentation of Department of Personnel Endorsement :  
(required only if the subject service involves training for state employees)

select one:



Documentation Not Applicable to this Request



Documentation Attached to this Request

19) Documentation of State Architect Endorsement :  
(required only if the subject service involves construction or real property related services)

select one:



Documentation Not Applicable to this Request



Documentation Attached to this Request

20) Description of Procuring Agency Efforts to Identify Reasonable, Competitive, Procurement Alternatives :

See attached correspondence.

21) Justification for the Proposed Non-Competitive Amendment :

See attached correspondence.

REQUESTING AGENCY HEAD SIGNATURE & DATE :

(must be signed & dated by the ACTUAL procuring agency head as detailed on the Signature Certification on file with OCR— signature by an authorized signatory will be accepted only in documented exigent circumstances)

Agency Head Signature

Date

# RULE EXCEPTION REQUEST

APPROVED

Commissioner of Finance &amp; Administration

Date:

RFS # 317.04-003

STATE AGENCY: F &amp; A - Insurance Administration

## INFORMATION ABOUT THE EXCEPTION(S) REQUESTED

SUBJECT RULE NUMBER(S): 0620-3-3-.07 General Requirements, Paragraph (5) Contract Term

### DESCRIPTION OF EXCEPTION(S):

This exception will extend the contract term beyond the allowed 60 months.

### JUSTIFICATION FOR EXCEPTIONS:

(compelling reasons for contracts rule exception; relevant background information; attach additional justification as necessary)

See attached letter from Richard Chapman to Dave Goetz dated August 16, 2005.

## INFORMATION REGARDING THE APPLICABLE CONTRACT

### DESCRIPTION OF SERVICE TO BE PROCURED:

Medical Claims Decision Support System (Data Storage Analysis)

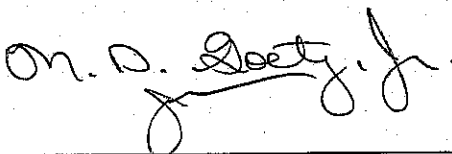
BEGIN DATE: January 1, 1995

END DATE (including ALL options for term extension): December 31, 2005

MAXIMUM LIABILITY (including ALL options for term extension): \$3,400,000

### AGENCY HEAD REQUEST SIGNATURE:

(signed by the procuring agency head or authorized signatory)



SIGNATURE DATE:

8-17-05



STATE OF TENNESSEE  
DEPARTMENT OF FINANCE AND ADMINISTRATION  
INSURANCE ADMINISTRATION

312 Eighth Avenue North  
Suite 1300 William R. Snodgrass Tennessee Tower  
Nashville, Tennessee 37243  
Phone (615) 741-3590 or (800) 253-9981  
FAX (615) 741-8196

Dave Goetz  
COMMISSIONER

Richard Chapman  
DIRECTOR

August 16, 2004

Dave Goetz, Commissioner  
Department of Finance and Administration  
First Floor, State Capital  
Nashville, TN 37243

Dear Commissioner Goetz:

This request is submitted in support of the attached *Request for Approval: Non-competitive Contract Amendment (#FA-99-5114095-06)*. As required by the *Request for Approval* format, this letter contains the following:

**1) A description of the proposed additional service and amendment effects;**

The State of Tennessee sponsors health insurance for employees and retirees of state government and higher education, as well as local school systems and local government agencies. Specifically, the state offers three, optional insurance plans: A preferred Provider Plan (PPO), a Point of Service Plan (POS) and a Health Maintenance Organization (HMO). At the end of 2004, over 134,000 employees and retirees in addition to over 125,000 of their eligible dependents participated in these plans. These 259,000 lives accounted for over \$850 million in claims during 2004.

Each of the health insurance plan options are self insured, therefore the risk is assumed by the participating entities. Four separate and distinct funds constitute the financial "risk pools" established for the administration of the financial activity of the Plans.

In order to effectively manage the risk for each of the plans; timely, reliable and accurate claims information must be available through a claims analysis system that provides the necessary detail to support analytical activity and complex decision-making. In order to meet this need, the Insurance Committees have contracted through a competitive procurement process with The Medstat Group for a claims analysis decision support system. The main decision support product tool of the Medstat system is "Decision Analyst" which provides Internet access through standard and custom designed programs to 36 months of health claims data for all of the state health plan options. An additional tool "Net Effect" is a program providing Internet access to standard executive reports on plan cost and use. Together, Decision Analyst and Net Effect comprise the Medstat "Advantage Suite" system. Access to this claims information provides the state with enhanced tool for the planning, management and administrative support for all plans.

The amendment calls for a three-year extension to the existing contract, allowing for the continued provision of these services for an additional three year period. The present contract termination date is

December 31, 2005. The amendment would extend the contract to December 31, 2008 and would not significantly change the scope of services.

The authorization to pursue a three year extension to the Medstat contract received approval by the Insurance Committees at their meeting of May 13, 2005.

## **2) Explanation of need for the proposed amendment:**

The ability to understand the many factors that are influencing the trends in claims experience for each of the options is essential to the effective administration and management of these plans. This understanding cannot occur without the consistent and timely access to the detailed claims data provided through a decision support system. The system provides the ability to secure, through on line Internet access, claims information specific to each plan. Subsetting capabilities allow detailed analysis at the claim, member, clinical and provider level. Specific examples of activities and benefits that are supported through the Medstat system are as follows:

- Data and statistics showing various cost and utilization data by plan and healthcare option are derived on an ongoing basis. This data is used to prepare an array of charts, tables, and graphs for use on the Division of Insurance Administration's website and to provide information to members of the Insurance Committees to make informed decisions about the health plans.
- Through detailed analysis of the utilization and cost of medical and pharmacy services, identification of those factors that are contributing to rising health care costs can take place. The trends within groups with differing demographic characteristics including age and sex of plan members can be analyzed and used in planning modifications in plan benefits.
- Through modeling, the impact of specific benefit changes on future claims cost to the Plan and to its members can be estimated.
- Analysis of contractual risk sharing agreements can determine and validate the liability for the claims administrator and the state.
- Analysis of specific past claims trends enhance the validity of projection methods for determining funding needs.
- Analysis of the cost and prevalence of chronic conditions among plan members guides the development and evaluation of care and disease management programs.
- Determination of incurred but unreported claims is used to establish future reserve funding needs and in the preparation of each of the year-end audited financials.
- The Division of State Audit utilizes claims data to determine the focus of plan audits.
- Claims data provides needed plan historical claims experience needed to enhance information for competitive proposals.
- The fiscal impact of proposed legislation on state-sponsored plans can be estimated through the analysis of cost and use data.

Changing to a different claims analysis decision support system, other than the present Medstat system, would adversely impact the consistency and availability of the three years of detailed claims data necessary to effectively administer and management the state sponsored self insured health plans. Claims data is submitted quarterly to Medstat from contracted claims administrators (Blue Cross, John Deere, Aetna and Magellan Health Services) under the format required. If needed the state has access to claims information in the Medstat data warehouse from 1995 forward. Changing to a new claims analysis and decision support system would require additional time and cost for the state and claims administrators to change required data transmittal format.

In addition, a new system would require training of staff in the new system. These factors would cause a loss of access to the decision support system for an extended period with even the possible loss of historical claims data.

It would not be beneficial to the state at this time to seek a competitive procurement for the existing Medstat decision support system. The loss of this tool could negatively affect the ability to continue to effectively manage the state sponsored self-insured plans. The three-year extension to the existing contract from January 1, 2006 through December 31, 2008 with the Medstat Group would provide continuity to the state for the continued provision of these necessary services.

In addition to the reasons mentioned above, The Governmental Accounting Standards Board (GASB) will require, effective January 1, 2007, that state and local governmental employers provide an accounting and reporting of other post employment benefits (OPEBs) expenditures/expense and certain other related amounts in their financial reports. Historical claims information provided through the Medstat System will be vital to the state and its consulting actuary in projecting and accounting of post employment benefits. Loss of the system could impact the state's ability to accurately and timely obtain this information.

**3) Name and address of contractor's principal owner(s);**

The Medstat Group  
777 East Eisenhower Parkway  
Ann Arbor, Michigan 48108

**4) Description of procuring agency efforts to identify reasonable, competitive, procurement alternatives (rather than to use non-competitive negotiation);**

Given the scope of services (as illustrated in Sections 1 and 2) that are provided to the state through the Medstat system and the continued emphasis on the effective management of the state sponsored self insured plans, the governing bodies of the state sponsored plans has determined it is in the best interest of the State to extend the existing contract for an additional three years through 2008. Non-competitive negotiation is requested for the following reasons:

- Loss of specific functions designed for the state that are pre scheduled throughout the year such as evaluation of risk-sharing arrangements between the state and plan administrators.
- Possible disruption of up to six months to a year in the access to a claims analysis system necessary in order to manage the state sponsored self-insured plans.
- Additional cost of moving 36 months of claims data (or approximately 9 years of historical data) from existing system.
- Conversion costs for the future transmission of quarterly claims data.
- Possible loss of analytical capability available through the current database that allows the state to break down data in unique ways. Having continued access to these fields would enable the Division to continue its current reporting needs that the Insurance Committees and other state agencies have come to rely on.
- Inability to obtain accurate and timely health plan cost and utilization data necessary to meet upcoming GASBE requirements for accounting and reporting of post employment benefits (OPEBs).

**5) Justification of why the state should approve a Non-Competitive amendment.**

Based on the following summary of the reasons identified in question 1,2 and 4 the State Group Insurance Program feels it is necessary to extend the contract with the Medstat Group for an additional three-year term (January 1, 2006 through December 31, 2008):

- Given the volatility of health care costs, it is necessary to maintain continuity and consistency in the utilization of a claims analysis system so that timely and accurate information on plan cost and use is available for the management and administration of the state sponsored self-insured plans.
- Additional cost for converting 36 months of claims data
- Possible loss of specific functions described in Section 2.
- The costs of moving the State's current 36 months of data (or approximate 9 years of historical data) from the existing system.
- The time and cost of retraining.
- Impact on GASBE requirements regarding post employment benefits.

Your approval of this request, by your signature on the following page, would be appreciated. Please call me with any questions or concerns.

Respectfully,



Richard Chapman  
Director, Insurance Administration



**GENERAL ASSEMBLY OF THE STATE OF TENNESSEE  
FISCAL REVIEW COMMITTEE**

320 Sixth Avenue, North – 8<sup>th</sup> Floor  
NASHVILLE, TENNESSEE 37243-0057  
615-741-2564

**Rep. Charles Curtiss, Chairman**  
Representatives

Harry Brooks	Mary Pruitt
Curt Cobb	Donna Rowland
Bill Dunn	David Shepard
Dennis Ferguson	Curry Todd
Craig Fitzhugh, <i>ex officio</i>	
Speaker Jimmy Naifeh, <i>ex officio</i>	

**Sen. Don McLeary, Vice-Chairman**  
Senators

Mae Beavers	David Fowler
Jim Bryson	Steve Southerland
Steve Cohen	
Douglas Henry, <i>ex officio</i>	
Lt. Governor John S. Wilder, <i>ex officio</i>	

**M E M O R A N D U M**

**TO:** The Honorable Dave Goetz, Commissioner  
Department of Finance and Administration

**FROM:** Charles Curtiss, Chairman  
Don McLeary, Vice-Chairman

**DATE:** August 25, 2005

**SUBJECT:** Contract Comments  
(Contract Services Subcommittee Meeting 8/24/05)

**RFS# 317.04-003**

**Department: Finance & Administration/Insurance Administration**

**Contractor: Medstat Group**

**Summary:** The current contractor provides Internet access through standard and custom designed programs to 36 months of health claims data for all of the state health plan options and provides the necessary detail to support analytical activity and complex decision-making through claims analysis system. This amendment extends the current contract through December 31, 2008 and increases the maximum liability by \$1,600,000.

**Original maximum liability: \$3,400,000**

**Maximum liability with amendment: \$5,000,000**

After review, the Fiscal Review Committee postponed its consideration of this amendment until the September 14, 2005 meeting to allow the amendment to be changed to include a breakdown of the consulting dollars, an annual performance review, and a reduction in the maximum liability.

**cc:** Richard Chapman, Director, Insurance Administration  
Mr. Robert Barlow, Director, Office of Contracts Review



## REQUEST: NON-COMPETITIVE AMENDMENT

RECEIVED

AUG 17 2005

FISCAL REVIEW

APPROVED

Commissioner of Finance &amp; Administration

Date:

EACH REQUEST ITEM BELOW MUST BE DETAILED OR ADDRESSED AS REQUIRED.

1) RFS # 317.04-003

2) State Agency Name : F &amp; A – Insurance Administration

## EXISTING CONTRACT INFORMATION

3) Service Caption : Medical Claims Decision Support System (Data Storage Analysis)

4) Contractor : The Medstat Group, Inc.

5) Contract # FA 5114095

6) Contract Start Date : (attached explanation required if date is &lt; 60 days after F&amp;A receipt) January 1, 1995

7) Current Contract End Date IF all Options to Extend the Contract are Exercised : December 31, 20058) Current Total Maximum Cost IF all Options to Extend the Contract are Exercised : \$3,400,000

## PROPOSED AMENDMENT INFORMATION

9) Proposed Amendment # 610) Proposed Contract End Date IF all Options to Extend the Contract are Exercised : December 31, 200811) Proposed Total Maximum Cost IF all Options to Extend the Contract are Exercised : \$5,000,000

12) Approval Criteria : (select one)

☒ use of Non-Competitive Negotiation is in the best interest of the state

☐ only one uniquely qualified service provider able to provide the service

13) Description of the Proposed Amendment Effects &amp; Any Additional Service :

See letter from Richard Chapman to Dave Goetz dated August 16, 2005

14) Explanation of Need for the Proposed Amendment :

See attached.

15) Name & Address of Contractor's Current Principal Owner(s) :  
 (not required if proposed contractor is a state education institution)

The Medstat Group, Inc., 777 East Eisenhower Parkway, Ann Arbor, MI 48108

**16) Documentation of Office for Information Resources Endorsement :**  
(required only if the subject service involves information technology)

select one:



Documentation Not Applicable to this Request



Documentation Attached to this Request

**17) Documentation of Department of Personnel Endorsement :**  
(required only if the subject service involves training for state employees)

select one:



Documentation Not Applicable to this Request



Documentation Attached to this Request

**18) Documentation of State Architect Endorsement :**  
(required only if the subject service involves construction or real property related services)

select one:



Documentation Not Applicable to this Request



Documentation Attached to this Request

**19) Description of Procuring Agency Efforts to Identify Reasonable, Competitive, Procurement Alternatives :**

See attached correspondence.

**20) Justification for the Proposed Non-Competitive Amendment :**

See attached correspondence.

**REQUESTING AGENCY HEAD SIGNATURE & DATE :**

(must be signed & dated by the ACTUAL procuring agency head as detailed on the Signature Certification on file with OCR— signature by an authorized signatory will be accepted only in documented exigent circumstances)

Agency Head Signature

Date

# RULE EXCEPTION REQUEST

APPROVED

Commissioner of Finance & Administration

Date:

RFS # 317.04-003

STATE AGENCY: F & A - Insurance Administration

## INFORMATION ABOUT THE EXCEPTION(S) REQUESTED

SUBJECT RULE NUMBER(S): 0620-3-3-.07 General Requirements, Paragraph (5) Contract Term

### DESCRIPTION OF EXCEPTION(S):

This exception will extend the contract term beyond the allowed 60 months.

### JUSTIFICATION FOR EXCEPTIONS:

(compelling reasons for contracts rule exception; relevant background information; attach additional justification as necessary)

See attached letter from Richard Chapman to Dave Goetz dated August 16, 2005.

## INFORMATION REGARDING THE APPLICABLE CONTRACT

### DESCRIPTION OF SERVICE TO BE PROCURED:

Medical Claims Decision Support System (Data Storage Analysis)

BEGIN DATE: January 1, 1995

END DATE (including ALL options for term extension): December 31, 2005

MAXIMUM LIABILITY (including ALL options for term extension): \$3,400,000

### AGENCY HEAD REQUEST SIGNATURE:

(signed by the procuring agency head or authorized signatory)

*M. D. Goetz, Jr.*

SIGNATURE DATE:

8-17-05

# CONTRACT SUMMARY SHEET

8-8-05

<b>RFS #</b> 317.04-003	<b>Contract #</b> FA5114095
<b>State Agency</b>	<b>State Agency Division</b>
<b>F&amp;A</b>	<b>Insurance Administration</b>
<b>Contractor Name</b> The MEDSTAT Group, Inc.	<b>Contractor ID # (FEIN or SSN)</b> <input type="checkbox"/> C- or <input checked="" type="checkbox"/> V- 06-1467923

**Service Description**

Storage of healthcare data, for research and insurance plan management purposes.

<b>Contract Begin Date</b> 1-1-95	<b>Contract End Date</b> 12-31-08	<b>SUBRECIPIENT or VENDOR?</b>	<b>CFDA #</b>
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**Mark, if Statement is TRUE**

<input checked="" type="checkbox"/> Contractor is on STARS as required	<input checked="" type="checkbox"/> Contractor's Form W-9 is on file in Accounts as required
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<b>Allotment Code</b> 317.04	<b>Cost Center</b> 993	<b>Object Code</b> 083	<b>Fund</b> 11	<b>Funding Grant Code</b>	<b>Funding Subgrant Code</b>
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FY	State	Federal	Interdepartmental	Other	TOTAL Contract Amount
1995-2005			3,350,000		3,350,000
2006			1,050,000		1,050,000
2007			400,000		400,000
2008			100,000		100,000
2009			100,000		100,000
<b>TOTAL:</b>			5,000,000		5,000,000

— COMPLETE FOR AMENDMENTS ONLY —			State Agency Fiscal Contact & Telephone #
<b>FY</b>	<b>Base Contract &amp; Prior Amendments</b>	<b>THIS Amendment ONLY</b>	<b>Maureen Abbey</b> 20 <sup>th</sup> Floor, Snodgrass TN Tower Nashville, TN 37243 741-0300  <b>State Agency Budget Officer Approval</b>  <b>Funding Certification</b> (certification, required by T.C.A., § 9-4-5113, that there is a balance in the appropriation from which the obligated expenditure is required to be paid that is not otherwise encumbered to pay obligations previously incurred)
1995-2005	3,350,000		
2006	50,000	1,000,000	
2007		400,000	
2008		100,000	
2009		100,000	
<b>TOTAL:</b>	3,400,000	1,600,000	
<b>End Date:</b>	12-31-05	12-31-08	

**Contractor Ownership**

<input type="checkbox"/> African American	<input type="checkbox"/> Disabled	<input type="checkbox"/> Hispanic	<input type="checkbox"/> Small Business	<input checked="" type="checkbox"/> NOT minority/disadvantaged
<input type="checkbox"/> Asian	<input type="checkbox"/> Female	<input type="checkbox"/> Native American	<input type="checkbox"/> OTHER minority/disadvantaged—	

**Contractor Selection Method**

<input checked="" type="checkbox"/> Original: RFP	<input type="checkbox"/> Competitive Negotiation	<input type="checkbox"/> Alternative Competitive Method
<input checked="" type="checkbox"/> This amdt: Non-Competitive Negotiation	<input type="checkbox"/> Government	<input type="checkbox"/> Other

**Procurement Process Summary**

Please see attached documentation, detailing justification.

**AMENDMENT NUMBER SIX (6) TO CONTRACT FA5114095  
BETWEEN THE STATE OF TENNESSEE, STATE INSURANCE COMMITTEE,  
LOCAL EDUCATION INSURANCE COMMITTEE, LOCAL GOVERNMENT INSURANCE COMMITTEE  
AND  
THE MEDSTAT GROUP, INC.**

This contract, by and between the State of Tennessee, the State Insurance Committee, Local Education Insurance Committee, and Local Government Insurance Committee, hereinafter referred to as the State, and The MedStat Group, Inc., hereinafter referred to as the Contractor, is hereby amended as follows:

1. Insert the following to Section B., Scope of Services, as the fourth paragraph, and prior to the paragraph beginning "More specifically, ....":

**For the contract year beginning January 1, 2006, the Contractor shall:**

- initiate the activities necessary to add MEDSTAT's Episode Grouper to its Advantage Suite database system;
- enhance the database to include "Copay" and "Coinsurance" fields, to be populated separately, both retroactively and prospectively; and
- implementation of up to one (1) new data source (carrier) per year.

2. Delete Section B.1.b. in its entirety and insert the following in its place:

**B.1.b Data format conversions, for the periods indicated below, and with the designated components:**

Contract Period	Vendor(s)	Required Components
January 1, 1995 through December 31, 1996	Blue Cross Blue Shield of Tennessee	data format conversion for the Plan Administrator in one format
January 1, 1997 through December 31, 1999	Blue Cross Blue Shield of Tennessee	medical and prescription drug claims in a single, consistent format specified by the Contractor
January 1, 1997 through December 31, 1999	HealthSource	medical and prescription drug claims and encounter records in a single, consistent format specified by the Contractor
Periods beginning on or after January 1, 2000	Blue Cross Blue Shield of Tennessee	medical and prescription drug claims in a single, consistent format specified by the Contractor
Periods beginning on or after January 1, 2000	John Deere Health Care, Inc.	medical and prescription drug claims and encounter records in a single, consistent format specified by the Contractor
Periods beginning on or after January 1, 2000	United Behavioral Health, Inc.	medical and prescription drug claims in a single, consistent format specified by the Contractor
Periods beginning on or after January 1, 2000 through December 31, 2000	United Healthcare of Tennessee	medical and prescription drug claims in a single, consistent format specified by the Contractor
Periods beginning on or after January 1, 2001	Aetna/Prudential	medical and prescription drug claims in a single, consistent format specified by the Contractor
January 1, 2003 through December 31, 2005	Blue Cross Blue Shield of Tennessee, Aetna, John Deere, Magellan Behavioral Health	Eligibility data feed: State of Tennessee; Medical Claims Data feeds: BCBST, Aetna, John Deere, UBH; Pharmaceutical Data feeds: BCBST, Aetna, John Deere
Periods beginning on or after January 1, 2006	Blue Cross Blue Shield of Tennessee, CIGNA, John Deere, Magellan Behavioral Health	Eligibility data feed: State of Tennessee; Medical Claims Data feeds from BCBST, Aetna, John Deere Health, CIGNA, and Magellan; Pharmaceutical Data feeds from BCBST, Aetna, John Deere Health, and CIGNA.

3. Delete Section C.4.a. in its entirety and insert the following in its place:

**C.4.a. Monthly payments shall be made to the Contractor for the basic services described under Section B., SCOPE OF SERVICES. The fixed fees for each contract year (to be paid at the rate of one twelfth of the total) are as follows:**

Calendar Year	Total fixed fee for basic services
1995	\$190,000
1996	\$199,500
1997	\$226,931
1998	\$287,240
1999	\$262,080
2000	\$262,080
2001	\$273,442
2002	\$281,645
2003	\$290,094 plus a migration to Advantage Suite cost of \$50,000 (total fixed fee for 2003 = \$340,094)
2004	\$298,796
2005	\$307,760
2006	\$312,376
2007	\$317,062
2008	\$321,818

Beginning with contract year 2003, if any of the eight required data feeds (see Section B.1.b) are eliminated, there will be a corresponding decrease of Five Thousand Dollars (\$5000) per eliminated data feed, for each of the remaining years of the contract. If any such elimination should occur at any point other than on a calendar year basis, this \$5000 fee decrease will be prorated, as mutually agreed by both parties.

4. Delete Section C.4.b. in its entirety and insert the following in its place:

**C.4.b. For each contract year (Column A below), fixed fees cover up to the number of employees (Column B) whose medical claims are administered by the Plan Administrator(s). If the average number of contracts exceeds the total in Column C, the State shall pay to the Contractor the amount in Column D, for all contracts in excess of the number in Column C, at the rate indicated.**

A. Contract Year	B. Fees cover up to :	C. If contracts exceed...	D. ...the State will pay to the Contractor...
1/1/1995 - 12/31/1997	110,000	110,000	\$0.43 per contract per quarter
1/1/1998 - 12/31/1999	112,000	112,000	\$2.19 per contract per year
1/1/2000 - 12/31/2005	150,000	150,000	\$2.43 per contract per year
1/1/2006 - 12/31/2008	150,000	150,000	\$2.43 per contract per year

5. Delete Section E. in its entirety and insert the following in its place:

**E. Contract Term: This Contract shall be effective for a period commencing on January 1, 1995 and ending on December 31, 2008. The State shall have no obligation for services rendered by the Contractor which are not performed within the specified period.**

The other terms and conditions of this contract not amended hereby shall remain in full force and effect.

**IN WITNESS WHEREOF:  
THE MEDSTAT GROUP, INC.:**

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**Carol Delphuis, Executive Vice President**

**Date**

**STATE OF TENNESSEE  
STATE INSURANCE COMMITTEE  
LOCAL EDUCATION INSURANCE COMMITTEE  
LOCAL GOVERNMENT INSURANCE COMMITTEE:**

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**M. D. Goetz, Jr., Chairman**

**Date**

**APPROVED:  
DEPARTMENT OF FINANCE AND ADMINISTRATION:**

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**M. D. Goetz, Jr., Commissioner**

**Date**

**COMPTROLLER OF THE TREASURY:**

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**John G. Morgan, Comptroller of the Treasury**

**Date**



RECEIVED

AUG 08 2005

FISCAL REVIEW

STATE OF TENNESSEE  
DEPARTMENT OF FINANCE AND ADMINISTRATION  
INSURANCE ADMINISTRATION  
312 Eighth Avenue North  
Suite 1300 William R. Snodgrass Tennessee Tower  
Nashville, Tennessee 37243  
Phone (615) 741-3590 or (800) 253-9981  
FAX (615) 741-8196


Dave Goetz  
COMMISSIONER

Richard Chapman  
DIRECTOR

August 5, 2005

MEMORANDUM

TO: Leni S. Chick, Contract Analyst  
Fiscal Review Committee

FROM: Richard Chapman 

SUBJECT: Contract Exception Material

Enclosed, pursuant to our conversation earlier this week, is material provided to the members of the State, Local Education and Local Government Insurance Committees on May 13, 2005. The subject is Contract Extensions for contracts that are under the jurisdiction of the three Insurance Committees. A copy of the minutes of the meeting is also enclosed. Because these two items represent extension of contracts beyond a five year duration for business considerations, I believe they are subject to review by the Fiscal Review Committee.

The first contract for consideration is a contract with BlueCross BlueShield of Tennessee for administration of the retiree's Medicare Supplement coverage. There are approximately 22,000 retirees and eligible dependents covered by one of the three options for these retirees who are Medicare eligible by virtue of age. This contract has been in effect since January 1998 when it was secured through a competitive procurement. At that time, the coverage was fully insured and the contract included a return of excess premium provision. The contract remained fully insured for 1998, 1999 and 2000 and was converted to a self-insured product effective January 2001 and the contract for administrative services remained in effect for two years (2001 and 2002). The contract was extended for two additional years (2003 and 2004) and then effective January 2005 the contract was extended for one year. Each of these actions was approved by the Commissioner of Finance and Administration and the Comptroller under the contract rules that existed at the time these actions were taken. They were initiated by the State Insurance Committee which has jurisdiction in this matter.

Beginning January 2006, a pharmacy benefit will be available through Medicare (the new Part D) and a number of restrictions will be placed upon Medicare Supplement plans. These actions are a result of the federal Medicare Modernization Act. In reviewing this matter, the State Insurance Committee



considered a recommendation from the Division of Insurance Administration that the State Medicare Supplement options be consolidated into a single offering, that the state support continue in the service-based, fixed amount legislative framework and that retirees be encouraged to participate in the new Part D pharmacy benefit. Obviously, there are a number of logistical concerns that relate to a significant transition in the benefit structure available to retired teachers and state employees through the Medicare Supplement Plan. It has been the determination of the State Insurance Committee that extending this contract through the end of calendar year 2006 will be beneficial to retirees in that the consistency of the administrative framework will not further complicate the situation of a change in benefit structure. The Insurance Committee adopted that posture on May 13, 2005 and the terms of the contract extension have not been negotiated with the State of Tennessee.

The second matter relates to the provision of claims analysis, decision support system activities through a contract with the Medstat Group. This contract has been in effect since 1994 and has been extended by the Insurance Committees on a number of occasions. This contract is the source of analytical tools which are used to evaluate claims payment information that is maintained in a data warehouse. Claims payment information originates with the plan administrators and eligibility information originates with the State of Tennessee. As you may know, the State sponsors three different healthcare offerings that are available in various geographic portions of the state. The Division of Insurance Administration employs this management tool to analyze utilization and cost information that is provided by the plan administrators that is unique to each the individual healthcare offerings available to participants in the state sponsored plans. The Division has two individuals who have been trained by Medstat to utilize the software and a number of other individuals who access standardized reports online. The Division relies on this management tool to identify trends in healthcare costs, assist in the preparation of data that is made available to plan members on our website, prepare analytical reports for public policymakers (including Members of the General Assembly) and assist in the overall management of health insurance benefits for approximately 134,000 public sector employees in Tennessee. The principle reasons for extending this contract are continuity in the provision of management information to plan management, the ability to maintain access to historical data through a consistent analytical tool, avoiding the cost of transferring the existing database and providing for conversion of reporting formats by contractors. There are two additional considerations that are important in the review of this three year extension request. First, the Division of Accounts is currently involved in a project to identify other post employment benefits costs that are required under GASB Rules 43 and 45. The data for conducting these assessments is found in the Medstat decision support system and there is likely to be a continuing obligation, extending well through 2006, for access to data that is separable by employer (this applies to the Local Education and Local Government Plans). The second issue pertains a recent contract award by the Bureau of TennCare to Medstat to supply similar decision support system tools to that Bureau. The contract is in effect and the capability is being established. Having the ability to use essentially the same software tools to analyze utilization and cost information for two distinct, but statistically large scale, populations in Tennessee would be advantageous.

The terms for extending this contract have been discussed with the contractor and Medstat is agreeable to a one and one-half percent increase, on an annual basis, for each of the three years beginning January 2006. As part of our discussions, Medstat has agreed to enhance the existing service by providing an episode grouper which enables the analytical software to assemble all claims associated with treatment of a specific medical event (an episode) and permit the analysis of that information. The Division believes that is a significant improvement in the existing tool and based upon the initial price attached that offering represents a value greater than the proposed increase in the administrative fees. The proposed contract amount for 2006 is \$312,000 which would grow to approximately \$322,000 for 2007.

As indicated previously, I have attached the material that was provided to the Insurance Committee relative to this matter and a copy of the draft minutes of the May 13, 2005 session of those governing bodies. Should you have any questions concerning this matter, please feel free to contact me at your convenience. If you believe it is appropriate, please let me know if I should attend the August 10, 2005 work session.

RLC/s